

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 1900 - HB 1957**

May 6, 2020

**SUMMARY OF BILL:** Extends, from July 1, 2022 to July 1, 2027, the tax on barrels of beer. Increases, from \$0.50 to \$1.00, the rate by which the tax shall be decreased on July 1 of any year following the enactment of any state or federal law that imposes mandatory deposits by consumers on beverage containers sold in this state or on the newly extended date of July 1, 2027, whichever comes first. Increases, from \$0.50 to 23.33 percent of the tax, the amount of tax per barrel of beer to be apportioned to the Highway Fund. Increases, from 0.4 percent to 0.9 percent, the amount of the soft drink bottler's tax to be apportioned to the Highway Fund. Increases, from 0.4 percent to 0.9 percent, the amount of the tax rate reduction that will take place on July 1 of any year following the enactment of any state or federal law that imposes mandatory deposits by consumers on beverage containers sold in this state or on July 1, 2022, whichever comes first. Expands the ways in which the Highway Fund revenue generated by such taxes can be used for beautification initiatives.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue –**

**\$7,121,700/Each FY20-21 through FY21-22/Highway Fund**

**\$1,987,100/Each FY22-23 through FY26-27/Highway Fund**

**Decrease State Revenue –**

**\$7,121,700/Each FY20-21 through FY26-27/General Fund**

**\$7,118,300/FY27-28 and Subsequent Years/General Fund**

**Other Fiscal Impact – In addition to the impacts above, the proposed legislation will allow for the continued collection of a temporary tax and thus prevent a recurring decrease in revenue to the Highway Fund of approximately \$1,983,713 in each FY22-23 through FY26-27.**

Assumptions:

*Barrel Tax:*

- The current barrelage tax is \$4.29 per barrel. This tax rate is set to be reduced by \$0.50, to \$3.79 per barrel, on July 1 of any year following the enactment of any state or federal law that imposes mandatory deposits by consumers on beverage containers sold in this state or on July 1, 2022, whichever comes first. For the purposes of this fiscal analysis, it

is assumed that, under current law, the rate would be reduced to \$3.79 per barrel on July 1, 2022.

- Further, under current law, any revenue generated from the \$0.50 temporary increase in the tax rate, from \$3.40 to \$3.90, is to be allocated to the Highway Fund. This allocation is subject to repeal on the abovementioned date. Barrelage tax collections in FY18-19 were \$17,020,256. The number of barrels sold is estimated to be 3,967,426 ( $\$17,020,256 / \$4.29$ ). This number is assumed to remain constant into perpetuity under current law.
- Under current law, \$15,036,544 is estimated to be deposited to the General Fund [ $3,967,426 \times (\$4.29 - \$0.50)$ ] and \$1,983,713 is estimated to be deposited to the Highway Fund ( $3,967,426 \times \$0.50$ ) in each FY20-21 and FY21-22. The General Fund allocation would continue into subsequent years while the Highway Fund allocation would be repealed on July 1, 2022.
- The proposed legislation will: extend the repeal date of the temporary tax to July 1, 2027; increase, from \$0.50 to \$1.00, the rate by which the tax will be repealed on such date; increase the Highway Fund allocation, from \$0.50 to 23.33 percent of the tax; and extend the Highway Fund allocation until July 1, 2027.
- Increasing the Highway Fund allocation will result in an increase in Highway Fund revenue, and a corresponding decrease in General Fund revenue, of \$1,987,113 [ $(3,967,426 \times \$4.29 \times 23.33\%) - \$1,983,713$ ] in each FY20-21 and FY21-22.
- In each year FY22-23 through FY26-27, the allocation to the Highway Fund will equal \$3,970,826 ( $3,967,426 \times \$4.29 \times 23.33\%$ ). This represents an increase of \$1,987,113 over current Highway Fund collections ( $\$3,970,826 - \$1,983,713$ ), which are set to be repealed on July 1, 2022 under current law. Therefore, the proposed legislation will increase Highway Fund collections by \$1,987,113 and will allow for the continued collection of \$1,983,713 in FY22-23 through FY26-27.
- General Fund collections will decrease by \$1,987,113 in each year FY22-23 through FY26-27 [ $\$15,036,544 - [(3,970,826 \times \$4.29) - \$3,970,826]$ ].
- In FY27-28 and subsequent years, General Fund collections will total \$13,052,831 ( $3,967,426 \times \$3.29$ ). This represents a recurring decrease in collections, beginning in FY27-28, of \$1,983,713 ( $\$15,036,544 - \$13,052,831$ ).

#### *Soft Drink Bottler's Tax:*

- The current bottler's tax is 1.9 percent of all gross receipts. This tax rate is set to be reduced by 0.4 percent, to 1.5 percent, on July 1 of any year following the enactment of any state or federal law that imposes mandatory deposits by consumers on beverage containers sold in this state or on July 1, 2022, whichever comes first. For the purposes of this fiscal analysis, it is assumed that, under current law, the rate would be reduced to 1.5 percent on July 1, 2022.
- Further, under current law, any revenue generated from the 0.4 percent temporary increase in the tax rate, from 1.5 percent to 1.9 percent, is to be allocated to the Highway Fund. This allocation is subject to repeal on the abovementioned date.
- Bottler's tax collections in FY18-19 were \$19,511,504. Therefore, gross receipts to which the bottler's tax is imposed upon are estimated to be \$1,026,921,263 ( $\$19,511,504 / 1.9\%$ ). This number is assumed to remain constant until FY22-23.

- Under current law, \$15,403,819 is estimated to be deposited to the General Fund (\$1,026,921,263 x 1.5%) and \$4,107,685 is estimated to be deposited to the Highway Fund (\$1,026,921,263 x 0.4%) in each FY20-21 and FY21-22. The General Fund allocation would continue into subsequent years while the Highway Fund allocation would be repealed on July 1, 2022.
- The proposed legislation increases the Highway Fund allocation to all revenue generated from the increase in the tax rate from 1.0 percent to 1.9 percent (a 0.5 percent allocation increase relative to current law). The legislation also establishes that the tax rate is to be reduced to 1.0 percent, rather than 1.5 percent. However, the legislation does not extend the tax rate reduction date. Therefore, it is assumed that the tax rate will be reduced to 1.0 percent on July 1, 2022 and the additional Highway Fund allocation will be applicable to FY20-21 and FY21-22.
- The resulting increase in Highway Fund revenue, and a corresponding decrease in General Fund revenue, in each FY20-21 and FY21-22 is estimated to be \$5,134,606 (\$1,026,921,263 x 0.5%).
- In addition, since the tax rate will be decreased to 1.0 percent on July 1, 2022, rather than 1.5 percent as under current law, the recurring decrease in General Fund revenue beginning in FY22-23 is estimated to be \$5,134,606.

*Total Impact:*

- The proposed legislation will result in the following decreases in revenue to the General Fund:
  - FY20-21 and FY21-22: \$7,121,719 (\$1,987,113 + \$5,134,606);
  - FY22-23 through FY26-27: \$7,121,719 (\$1,987,113 + \$5,134,606); and
  - FY27-28 and subsequent years: \$7,118,319 (\$1,983,713 + \$5,134,606).
- The proposed legislation will result in the following increases in revenue to the Highway Fund:
  - FY20-21 and FY21-22: \$7,121,719 (\$1,987,113 + \$5,134,606); and
  - FY22-23 through FY26-27: \$1,987,113.
- In addition to the impacts outlined above, the proposed legislation will allow for the continued collection of a temporary tax and thus prevent a recurring decrease in revenue to the Highway Fund of approximately \$1,983,713 in FY22-23 through FY26-27.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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